

TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL

FOR: HEALTH CARE FINANCING ADMINISTRATION

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3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

October 1, 2002

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN

☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN

☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR 447.250 et seq.

7. FEDERAL BUDGET IMPACT:

a. FFY 2003 \$ 741,835

b. FFY 2004 \$ 741,835

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A(20), pp. 1, 3, 5, 8-10, and 14

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Same

10. SUBJECT OF AMENDMENT:

Non-State-Owned Chronic and Rehabilitation Hospitals

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT

☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED

☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

☒ OTHER, AS SPECIFIED:

Not required under 42 CFR 430.12(b)(2)(i)

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME:

Wendy E. Warring

14. TITLE:

Commissioner

15. DATE SUBMITTED:

16. RETURN TO:

Laura Watson

State Plan Coordinator

Division of Medical Assistance

6000 Washington Street

Boston, MA 02111

19. EFFECTIVE DATE OF APPROVED MATERIAL

21. TYPED NAME

23. REMARKS

20. SIGNATURE OF REGIONAL OFFICIAL

22. TYPED NAME

24. REMARKS

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Methods Used to Determine Rates of Payment
For Non-State-Owned Chronic Disease and Rehabilitation Hospital Services

I. General Description of Payment Methodology

The following sections describe the methods and standards utilized by the Division of Medical Assistance ("Division") to establish rates of payment by contract, to be effective October 1, 2001-2002 (Rate Year (RY) 2003~~2~~), for services rendered by chronic disease and rehabilitation hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.*

A. Chief Components: The payment method described in this attachment is a comprehensive per-diem rate for each participating hospital. The daily rate covers both routine and ancillary services provided to inpatients. The base year used for both operating and capital cost information was HFY 1998. A composite inflation index was used to update costs from 1998 to 2002~~2003~~. Individual efficiency standards were applied to Inpatient Overhead Costs and Inpatient Capital Costs.

B. Patients Transferred from State Facilities: The following describes the payment method for Non-State-Owned Chronic Disease and Rehabilitation Hospital services provided to former patients of Lakeville Hospital, a State-Owned Nonacute Hospital that has been closed.

4.—The rate of payment in connection with this state facility closure has been set based on allowable actual costs under the methodology described herein and expenses ~~which that~~ must be incurred by a provider in order to serve the particular patients transferred from this state facility. The Division of Health Care Finance and Policy (DHCFFP) reviewed the budget costs of the hospital to which patients were to be transferred and found them to meet the reasonableness standards of the DHCFFP rate methodology ~~of the Division of Health Care Finance and Policy (DHCFFP)~~. Pursuant to such rate setting, the provider must demonstrate that items and services, furnished because of the special needs of the patients transferred, are necessary in the efficient delivery of necessary health care.

C. Coordinated Care Program for Non-State Owned Chronic Disease and Rehabilitation Hospitals: The Division has established a contractual coordinated care program with Non-State-Owned Chronic Disease and Rehabilitation Hospitals. Contractually, this program was established through the addition of special conditions to the standard Medicaid provider agreement. The intent of the program is to allow hospitals an opportunity to provide management of the delivery of all Medicaid-covered medical services and care needed by the Recipient while an inpatient at the hospital. Contracted hospitals will have the responsibility to provide or arrange and pay for all Medicaid-covered medical services, except acute inpatient hospital services. Providers with a coordinated care program agreement must continue to comply with all applicable laws and regulations, including 42 CFR 431.51.

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4. Actual payment to the nonacute pediatric hospital shall be the contracted per-diem and per-visit rate as established above, paid on a weekly basis. The Division of ~~Medical Assistance (DMA)~~ will determine a total of all payments made in the preceding quarter. If payment to the hospital in the preceding quarter exceeds the Quarterly Budget by 10%, the hospital must return the difference between the amount of actual payments made for the quarter and the Quarterly Budget amount. If payment to the hospital for the preceding quarter is below the hospital's Quarterly Budget by 10%, the Division of ~~Medical Assistance (DMA)~~ will, for the first two quarters only, reimburse the hospital the difference between the amount of actual payments made for the quarter and up to 10% of the Quarterly Budget amount.

E. Transition Methods for Certain Hospitals Subject to Potential Rate Decreases in Excess of 10% ~~Effective October 1, 2001.~~

1. Effective October 1, 2001~~2002~~, a transitional rate may be approved for any hospital that participated in the MassHealth program as of September 30, 2001, that would otherwise experience payment rate decreases in excess of 10% on October 1, 2001 and that, in the judgment of the Division, meets three of the following four criteria:
 - a1. greater than 75% of the payer mix and days of the hospital are attributable to MassHealth members;
 - b2. the hospital provides services for a specifically identifiable segment of the MassHealth member population;
 - c3. the hospital is a principal provider of services to MassHealth members in a particular geographic location; and
 - d4. the hospital provides unique or specialized service for MassHealth members.
2. The transitional rate established under this section shall be computed as follows:
 - a1. For the period October 1, 2001 through January 31, 2002, the transition rate shall be established at the amount of hospital's prior year payment rate in effect on September 30, 2001; and
 - b2. For the period commencing February 1, 2002 through September 30, 2002, **and each HFY thereafter**, the Division shall determine the transition rate, which shall not exceed the hospital's ~~prior year~~ payment rate in effect on September 30, 2001.

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Overhead. Overhead consists of expenses for fringe benefits, administration, plant maintenance and repairs, plant operations, laundry, housekeeping, cafeteria, dietary, maintenance personnel, nursing administration, and in-service education, RN ~~&~~ **and** LPN education, medical staff teaching and administration, post-graduate medical education, central service and supplies, pharmacy, medical records, medical care review, and social services.

Recipient. A person determined by the Division to be eligible for medical assistance under the Medicaid Program.

Rate Year (RY). The period beginning October 1 and ending September 30. RY ~~2002-2003~~ will begin on October 1, ~~2001-2002~~ and end on September 30, ~~2002~~**2003**.

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- (c) The sum of Inpatient Routine Overhead and Inpatient Ancillary Overhead is divided by HFY 1998 Patient Days. For hospitals that reported costs in the RSC-403 cost report Sch. XIV, Column 2, Line 15 (Central Service/Supplies) and/or Column 2, Line 16 (Pharmacy), those costs are removed from the overhead costs and reclassified to Ancillary costs pursuant to Section A.2.b.
- (2) Separate efficiency standards are determined for chronic hospitals and rehabilitation hospitals. Hospitals are classified as chronic or rehabilitation using the following classifications:
 - (a) The chronic hospital group consists of **Braintree Hospital – LLC (formerly Olympus of Massachusetts Hospital)**, Franciscan Children's Hospital, Jewish Memorial Hospital, New England Sinai Hospital, Shaughnessy Chronic Disease and Rehabilitation Hospital, Parkview (formerly Olympus Specialty Hospital of Springfield), and Youville Hospital.
 - (b) The rehabilitation hospital group consists of Health South Braintree, Fairlawn Hospital, Mediplex Hospital of Bristol, Health South New England Rehabilitation Hospital, Rehab Hospital of the Cape and Islands, Rehabilitation Hospital of Western Massachusetts, Spaulding Rehabilitation Hospital and Whittier Rehabilitation Hospital (Haverhill) and Whittier Rehabilitation Hospital, Westboro.
- (3) The Inpatient Overhead Per-diem Cost for each chronic hospital is ranked from lowest to highest and the median is determined. The median is the efficiency standard for the chronic hospital group.
- (4) The Inpatient Overhead Per-diem Cost for each rehabilitation hospital is ranked from lowest to highest and the median is determined. The median is the efficiency standard for the rehabilitation hospital group.
- (5) If a hospital's Total Inpatient Overhead Per-diem Cost does not exceed the appropriate efficiency standard, its Total Inpatient Overhead Cost is calculated Pursuant to Section A, paragraph 2(c)(1) without further adjustment.
- (6) If a hospital's Total Inpatient Overhead Per-diem Cost exceeds the appropriate efficiency standard, the hospital's Total Inpatient Overhead Cost is the efficiency standard multiplied by HFY 1998 Patient Days.

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3. **Adjustment to Base Year Costs.** Total Inpatient Direct Costs, Total Inpatient Ancillary Direct Costs, and Total Inpatient Overhead Costs are adjusted for inflation from base year 1998 through rate year ~~2002-2003~~ using a composite index comprised of two cost categories: labor and non-labor. The categories are weighted according to the weights used by the Centers for Medicare and Medicaid Services (CMS) for PPS-excluded hospitals. The inflation proxy for the labor cost category is the Massachusetts Consumer Price Index (optimistic forecast). The inflation proxy for the non-labor cost category is the non-labor portion of the CMS market basket for hospitals. The inflation amounts ~~for 1998-1999~~ are: **for 1998-1999, Labor - 2.173% and Non-Labor - 1.12%; for 1999-2000, Labor - 1.04% and Non-Labor - 0.35%; for 2000-2001, Labor - 1.46% and Non-Labor - 0.54%; for 2001-2002, Labor - 1.404% and Non-Labor - 0.412%; and for 2002-2003, Labor - 1.581% and Non-Labor - 0.6287%.**

4. **Allowance for Inpatient Capital**
 - a) Each hospital's base year capital costs consist of the hospital's actual HFY 1998 patient care capital requirement for historical depreciation for: building and fixed equipment; reasonable interest expenses; amortization and leases; and rental of facilities, subject to the limitations described below.

 - b) The limitations applicable to base-year capital costs are:
 - (1) Interest expense attributable to balloon payments on financed debt is excluded. Balloon payments are those in which the proposed payment on a partially amortized debt is scheduled to be larger than all preceding payments.

 - (2) Where there was a change of ownership after July 18, 1984, the basis of the fixed assets used in the determination of depreciation and interest expense is the lower of the acquisition cost to the new owner or the basis allowed for reimbursement purposes to immediate prior owner. The depreciation expense is calculated using the full useful lives of the assets.

 - (3) All costs (including legal fees, accounting costs, and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of any capital asset after July 18, 1984 (by acquisition or merger), for which payment has previously been made by any payer, and which have been included in any portion of prior years' rates, are subtracted from capital costs

 - c) Each hospital's base-year inpatient unit capital cost equals the base-year inpatient capital cost divided by the greater of: (i) the actual base-year routine patient days; or (ii) eighty-five percent (85%) of base-year maximum licensed bed capacity, measured in days. The CMS Capital Input Price Index adjusts the base-year inpatient unit capital cost from 1998 to ~~2002-2003~~ to determine the Inpatient Unit Capital amount.

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- d) The Inpatient Unit Capital amounts of all chronic hospitals are ranked from lowest to highest and median is determined. The median is the efficiency standard, which serves as the Chronic Disease Hospital Allowance for Inpatient Capital.
- e) The Inpatient Unit Capital amounts of all rehabilitation hospitals are ranked from lowest to highest and median is determined. The median is the efficiency standard, which serves as the Rehabilitation Hospital Allowance for Inpatient Capital.

B. Determination of Inpatient Rate for New Hospitals (~~i.e., Newly-Licensed as Chronic Disease or Rehabilitation Hospitals after October 1, 2001~~)

- 1. The allowable overhead and capital per-diem costs will be established at the efficiency standards as calculated pursuant to Section A, paragraph 2.c) and Section A, paragraph 4, respectively.
- 2. The allowable routine and ancillary per-diem costs will be established at the median of HFY 1998 per-diem costs reported by chronic and rehabilitation hospitals.
- 3. The allowable per-diem costs will be updated by the inflation factor calculated pursuant to Section III. Paragraph A.3. and A.4.c) d)and e).

C. Determination of Rate for Administrative Day Patients

A hospital will be paid for Administrative Days using an Administrative Day Per-diem Rate (AD Rate). The AD Rate is an all-inclusive daily rate paid for each Administrative Day. The AD Rate is composed of three components: a statewide AD routine per-diem amount, a statewide AD ancillary per-diem amount and a hospital-specific supplementary per-diem amount. The statewide AD routine per-diem amount is derived from the weighted average Medicaid payment rate for case mix category T (10) patients in nursing facilities in 1998. The statewide AD ancillary per-diem amount is derived from the statewide weighted average Medicaid ancillary payment for AD patients in Chronic and Rehabilitation Hospitals in FY 1998. The sum of the statewide AD routine and ancillary per-diem amounts for RY 2002-2003 is \$398.81. For RY 2002-2003, the supplementary per-diem amount for each hospital is the difference between the statewide AD routine and ancillary per-diem amount of \$398.81 and each hospital's RY 2002-2003 Inpatient Per-Diem Rate.

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- (i) First, calculate the average cost per Medicaid inpatient discharge for each hospital;
 - (ii) Second, calculate the standard deviation for the cost per Medicaid inpatient discharge for each hospital;
 - (iii) Third, add one and one-half times the hospital's standard deviation for the cost per Medicaid inpatient discharge to the hospital's average cost per Medicaid inpatient discharge. Any cost that equals or exceeds the sum of these two numbers shall constitute an exceptionally high cost for purposes of payment adjustments.
- (a) The amount of funds allocated shall be twenty five thousand dollars (\$25,000) for FY 20022003. This includes Chronic/Rehabilitation, Psychiatric and State-Owned Nonacute hospitals.
 - (b) Any hospital that qualifies for a payment adjustment for infants less than one year of age shall receive one percent of the total funds allocated for such payments. In the event that the payments to qualifying Non-State-Owned Chronic/Rehabilitation Hospitals would exceed the total, each share shall be proportionately reduced to stay within the allocation.

D. Children under Six

- 1. **Eligibility for Payment.** Consistent with section 4604 of the Omnibus Reconciliation Act of 1990 (OBRA 90) outlier adjustments for medically necessary inpatient hospital services, effective July 1, 1991, involving exceptionally high costs or exceptionally long lengths of stay (as defined in sections IV.C. 2a. and 2b. of this Plan) are extended to services for children who have not reached the age of six, if provided by a hospital which qualifies as a disproportionate share hospital under Section 1923 (a) of the Social Security Act.
- 2. **Amount of Payment Adjustment**
 - a. The amount of funds allocated shall be twenty five thousand dollars (\$25,000) for FY 20022003. This includes Chronic/Rehabilitation, Psychiatric and State-Owned Non-acute hospitals.
 - b. Any hospital that qualifies for a payment adjustment for children under six, pursuant to Section IV.C.1. above shall receive one percent of the total funds allocated for such payments. In the event that the payments to qualifying Non-State-Owned Chronic/Rehabilitation Hospitals would exceed the total, each share shall be proportionately reduced to stay within the allocation.

- E. **Limits on Allocation of Funds.** The total amount of funds allocated for payment to Non-State-Owned Chronic/Rehabilitation Hospitals may be proportionately reduced to stay within the federal DSH allotment limits for disproportionate share payments pursuant to 42 U.S.C. 1396r-4.